

Ukraine: Monthly update – economy in war (October 2024)

Business sentiment improved slightly in September, although it remains pessimistic. Inflation, on the other hand, apparently accelerated amid rising producer costs and a limited supply of raw materials. Budget indicators have stabilised, but a smaller amount of external assistance in September resulted in a drop in the NBU's foreign exchange reserves. Increased FX interventions by the NBU helped stabilise the FX market.



<i>Real Sector: Business sentiment improved slightly in September</i>	1
<i>Monetary sector: Sharp acceleration of inflation</i>	2
<i>Fiscal sector: Central budget figures have stabilised</i>	3
<i>Higher NBU interventions stabilised FX market in September</i>	4
<i>Foreign exchange reserves fell by 8% in September</i>	5
<i>Disclaimer</i>	7
<i>Analyst</i>	10

Real Sector: Business sentiment improved slightly in September

Cautious optimism continues to characterise the mood of **industry and trade businesses**, which improved by 3% mom for both sectors in September and was above the neutral level of 50 points. However, **expectations in construction and services deteriorated**, especially in the latter industry (-4% mom). The services sector remains the only one with a business sentiment index below the neutral level at 44.8, primarily due to the negative impact of additional mobilisation measures, which, in particular, significantly reduced the number of visitors to cafés and restaurants.

The low level of business sentiment in the services sector is the key factor contributing to the fact that **despite weak growth of 1%**, the overall **business sentiment index (BAEI) remains in the pessimistic zone** at 48.7 points. Interestingly, a year ago, in September 2022, business sentiment in three of the four sectors was almost identical, with only the services sector showing a visible 7% deterioration.

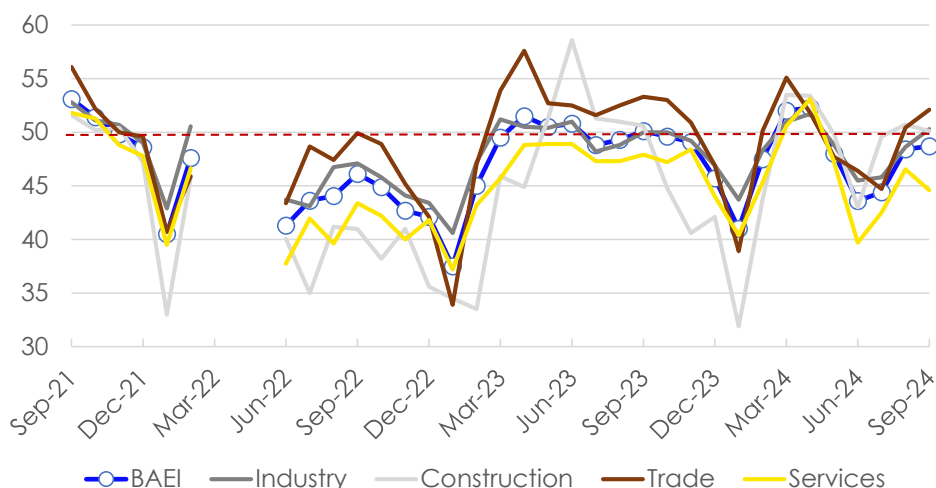
Oleksandr PECHERYTSYN

Analyst
 oleksandr.pecherytsyn@raiffeisen.ua

Serhii KOLODII

Analyst
 serhii.kolodii@raiffeisen.ua

Chart 1 - Business Activity Expectations Index (BAEI) and its components



Source: NBU, RBI/Raiffeisen Research

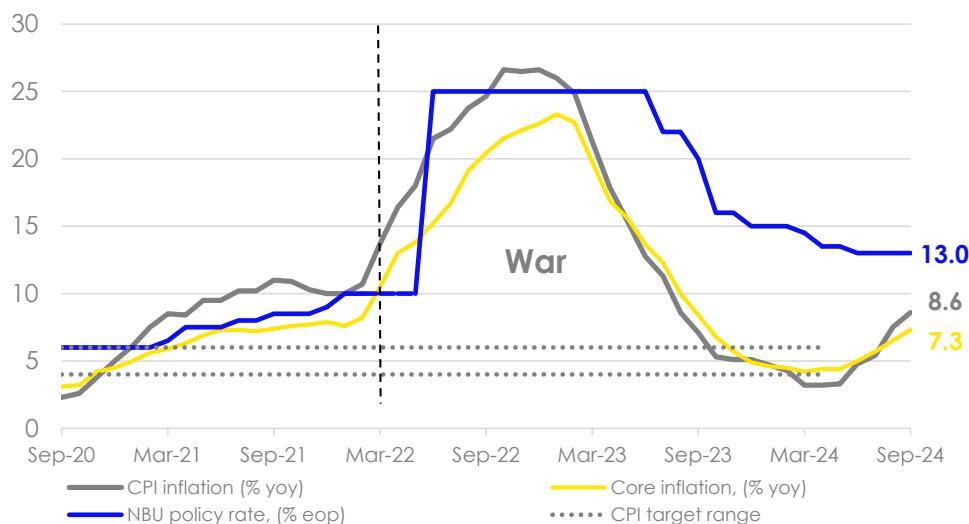
So far, we see no change in the balance of risks in one direction or the other. September was a month without significant power outages (which occurred only in certain areas close to active hostilities or the border with the aggressor country). There were also no massive missile attacks, but the aggressor's use of attack drones reached a record level and, for the first time, was carried out every day without pauses. It is evident that the aggressor is accumulating resources, so in October, **the situation may deteriorate** if the shelling intensifies and the energy supply situation worsens. In general, the current trajectory of business expectations is in line with our forecast of 3.4% GDP growth for the whole of 2024.

Monetary sector: Sharp acceleration of inflation

The situation regarding price dynamics in the second half of 2024 **deteriorated significantly**, primarily due to the effect of **poor harvests**, which significantly reduced the supply of many raw foods, representing a fundamental difference compared to last year. Since June, monthly inflation in Ukraine has been **consistently above** the long-term average for this period, which is an evidence of **a steady pro-inflationary trend**. At the same time, core inflation also increased, with its monthly rate of 1.7% in September, exceeding the headline figure.

Moreover, this monthly trend **is the highest for core inflation in 23 months** or almost two years. Although monthly inflation in September is usually significantly higher than in August (due to seasonal factors and certain methodological features of calculating clothing and footwear prices), the current acceleration was somewhat stronger than our expectations and consensus forecasts. Therefore, the annual CPI again showed **a significant acceleration from 7.5% to 8.6%** and has moved away from the NBU's 5% target.

Chart 2 - Inflation and key policy rate



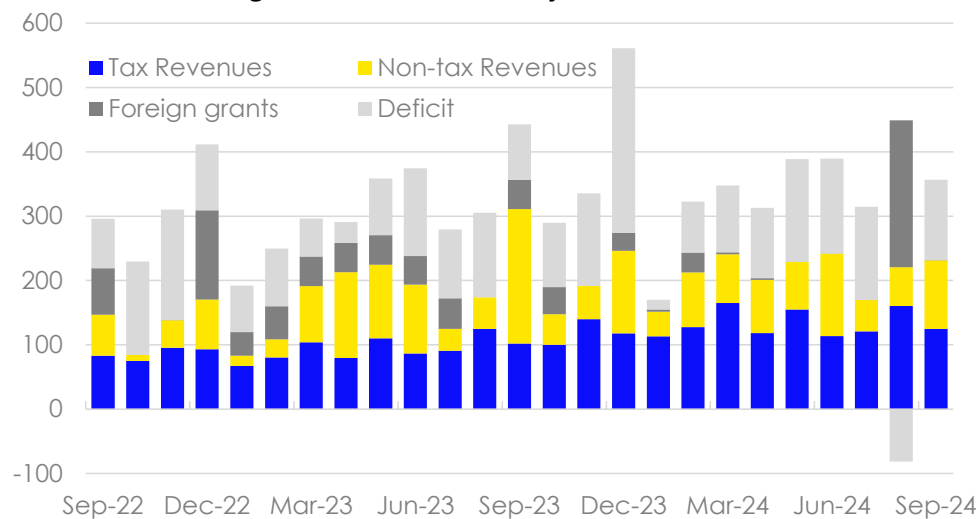
Source: Ukrstat, NBU, RBI/Raiffeisen Research

Inflation at the end of the third quarter **exceeded the NBU's forecast** of 7.9% for the period and is now higher than the corresponding forecast for the end of the year. Therefore, its acceleration may become **an important argument** for the NBU to revise its key rate policy for the coming period. And while only one of the eleven MPC members favoured a rate hike at the last meeting in September, the situation may change at the next meeting on 31 October. **We are keeping our forecast** of a steady 13% key policy rate by the end of the year unchanged for now, but we **see the balance of risks shifting** towards a hike. We are keeping our inflation forecast of 9.2% yoy by the end of 2024 unchanged, but know the balance of risks is shifting upwards.

Fiscal sector: Central budget figures have stabilised

The situation with **budget parameters returned to normal** in September after receiving record grants, causing a significant surplus of the central budget in August. However, **the budget's fiscal deficit** over this month was **reduced moderately** compared to the levels recorded in May-July. In our view, this occurred not because the government limited budget expenditures (in anticipation of a smaller inflow of funds to finance them) but rather due to **an increase in both tax and non-tax revenues**.

Chart 3 - Central budget revenues and deficit by months, UAH bn



Source: NBU, RBI / Raiffeisen Research

This report is intended for replacement@bluematrix.com. Unauthorized distribution of this report is prohibited.

According to our estimates, **tax revenues grew by 22% year over year** in September, with higher fuel excise taxes driving the increase. At the same time, the growth rate of cumulative tax revenues over the past twelve months remained quite high (40%), which visibly exceeded the forecasted growth rate of nominal GDP in 2024 (by 16% YoY).

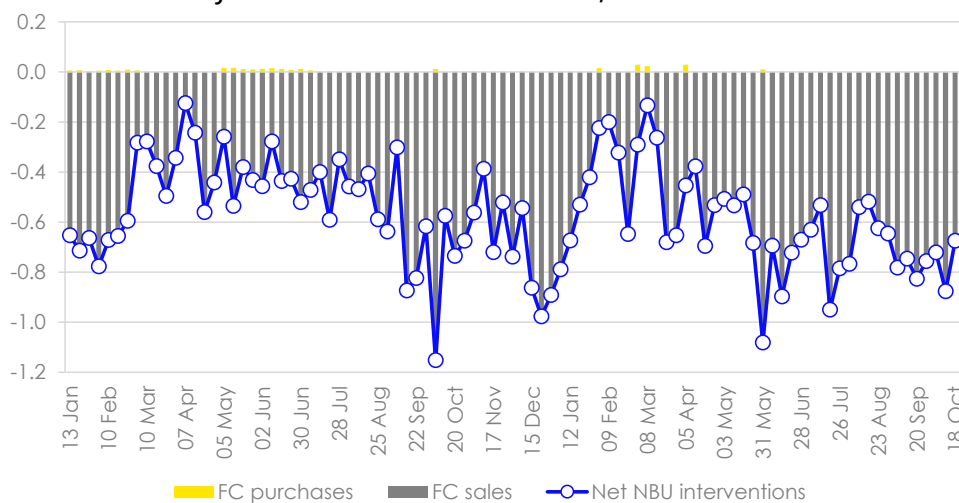
The potential receipt of external financing from the US in the form of **grants** at the end of the year and the government's intention to reduce the central budget debt to the Single Treasury Account by the end of 2024 **may slightly reduce** the final budget deficit figure to around 16% of GDP. Nevertheless, we have kept our forecast (18%) unchanged so far while foreseeing the balance of risks shifting towards a reduction in the central budget deficit as a share of GDP.

Higher NBU interventions stabilised FX market in September

There was a visible **hike in business activity in September**, which caused increasing volumes on the FX market. Even though foreign currency demand faced a stronger rebound in September than supply (thus causing a widening foreign currency deficit), **it was not critical enough** to change the exchange rate dynamic on the market toward worsening imbalances. We noticed some **rebound in foreign currency demand** last month, which might be tied mostly to seasonal and psychological factors. However, the firm position of the NBU in preserving hryvnia from excessive devaluation has lowered **the impact of the speculative component** of foreign currency demand amid weak near-term devaluation fears. We also saw smaller volumes of energy resources and equipment imports last month due to the absence of electricity cut-offs and relatively high outside temperature.

It was relatively unexpected **not to see increasing exporting volumes** and correspondingly higher foreign currency supply in September compared to August figures. Indeed, growing global agriculture prices and an active harvesting season provide good incentives for higher export values. On the other hand, the increasing global price was an argument for Ukrainian farmers to **postpone the sale of their harvest immediately**, thus waiting for a better price. We think this factor (together with smaller harvesting volumes) preserved foreign currency supply in September closer to the volumes recorded in August.

Chart 4 - Net weekly NBU interventions in 2023-2024, USD bn



Source: NBU, RBI/Raiffeisen Research

Even though **the USD/UAH volatility has expanded marginally** in September vs August indicators, we could not say some fundamental reasons drove it. Indeed, the USD/UAH's monthly rate was at 40.91-41.49, with higher volatility mostly in the first half of the

This report is intended for replacement@bluematrix.com. Unauthorized distribution of this report is prohibited.

month. On the contrary, the fluctuations of the USD/UAH have **narrowed to the range of 41.14-41.27** over the second half of the month, which may be the outcome of more precise control over market stability by the NBU. It seems that recent tactics of the NBU are towards **maintaining the exchange rate visibly behind** the temporary benchmark of 41.50, thus not allowing USD/UAH even to approach it. It became more visible from the middle of September onwards. Current stability and some expansion of the foreign currency deficit in the FX market have required **greater NBU interventions, which increased by a fifth** mom to USD 3.2 bn in September.

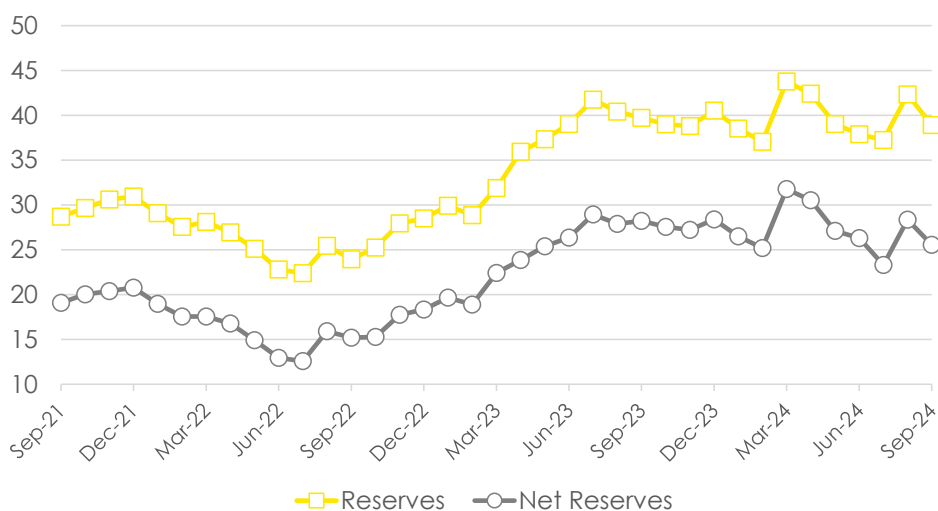
We expect to see **a relatively flat FX market dynamic this month**. However, market imbalances may sharpen due to some seasonal pause in exports of agricultural products and colder weather (which caused some hike in energy imports). We also see a potential **negative impact of recent attacks** by the country-aggressor on infrastructure and vessels involved in the exporting corridor. Nevertheless, this is **unlikely to change the exchange rate dynamic** visibly, as NBU will balance the market through its FX interventions. Therefore, relatively moderate volatility in the USD/UAH **not exceeding the temporary benchmark of 41.50** is the most likely scenario for this month.

Foreign exchange reserves fell by 8% in September

A significant decline in Ukraine's foreign exchange reserves in September **was expected**. Thus, the NBU's announcement this week that they had fallen 8.1% from USD 42.1 bn to USD 38.9 bn was no surprise. **The inflow of foreign aid was extremely small**, totalling only USD 70 million. Instead, the NBU's net sales in the foreign exchange market amounted to USD 3.2 bn, which formally caused the reserves to fall.

The dynamics of foreign exchange reserves in 2024 differ in their volatility from the previous two years. That is primarily because the main **external assistance from the EU and the US is not received every month** this year, as it was in 2023. As part of the approved Ukrainian plan for 2024-2027, **the EU will provide loans and grants quarterly**. In contrast, this year's funds from the United States are coming in two tranches, one of which Ukraine received in early August and the other expectedly in November. Meanwhile, payments from Ukraine in foreign currency, the main part of which is the NBU's net sale of foreign currency through interventions in the foreign exchange market, are quite stable by month. Therefore, once a quarter, we **will see a sharp increase in foreign exchange reserves**, followed by a downward correction.

Chart 5 - Reserves, USD bn



Source: NBU, RBI/Raiffeisen Research

Despite the decline in reserves, their current volume allows us to cover five months of future imports, which is significantly higher than the threshold level of 3 months. As before, we expect that by the end of 2024, foreign exchange reserves will amount to **USD 42 billion**.

Disclosure

Risk notifications and explanations

Warnings:

- Figures on performance refer to the past. Past performance is not a reliable indicator for future results and the development of a financial instrument, a financial index or a securities service. This is particularly true in cases when the financial instrument, financial index or securities service has been offered for less than 12 months. In particular, this very short comparison period is not a reliable indicator for future results.
- Performance of a financial instrument, a financial index or a securities service is reduced by commissions, fees and other charges, which depend on the individual circumstances of the investor.
- The return on an investment in a financial instrument, a financial or securities service can rise or fall due to exchange rate fluctuations.
- Forecasts of future performance are based purely on estimates and assumptions. Actual future performance may deviate from the forecast. Consequently, forecasts are not a reliable indicator for future results and the development of a financial instrument, a financial index or a securities service.

A description of the concepts and methods used in the preparation of financial analyses is available under: www.raiffeisenresearch.com/concept_and_methods.

Detailed information on sensitivity analyses (procedure for checking the stability of potential assumptions made in the context of financial analyses) is available under: www.raiffeisenresearch.com/sensitivity_analysis.

Disclosure of circumstances and interests which may jeopardise the objectivity of RBI: www.raiffeisenresearch.com/disclosuresobjectivity.

Detailed information on recommendations concerning financial instruments or issuers disseminated during a period of 12 month prior to this publication (acc. to Art. 4 (1) i) Commission Delegated Regulation (EU) 2016/958 of 9.3.2016) is available under: https://raiffeisenresearch.com/web/rbi-research-portal/recommendation_history.

IMPORTANT LEGAL NOTICE

By opening and/or using the information, services, links, functions, applications or programmes (hereinafter: "contents") offered on this website, the user hereby agrees to be bound by the terms and conditions set out below:

Copyright law

The contents offered on this website and subsites (hereinafter: the "RBI Research-Website") are protected by copyright law. The downloading or storage of applications or programmes contained on the RBI Research-Website and the (complete or partial) reproduction, transmission, modification or linking of the contents of the RBI Research-Website shall only be permitted with the express and written consent of Raiffeisen Bank International AG ("RBI").

Information content, timeliness of information

The contents of the RBI Research-Website you are seeking to access is for information only and does neither qualify as investment advice nor constitute or form part of any offer to buy or sell any securities or other financial instruments as defined in Article 5 para 1 number 15 of EU Directive 2014/65 ("MiFID II") in any jurisdiction or jurisdictions, (and must not be considered in any way as an offer or sale in relation to any securities or other financial instrument). In particular, no securities have been or will be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and no such securities may be offered or sold in the United States absent registration or exemption from registration under the Securities Act.

RBI has made every effort to ensure reliability in researching the information published on the RBI Research-Website or sent via RBI Research-Website as well as in selecting the source of information used. Nonetheless, RBI does not assume any liability whatsoever

for the correctness, completeness, timeliness or uninterrupted availability of the information made available on the RBI Research-Website or as regards the sources of information used.

The information contained on the RBI Research-Website as well as forecasts published on the RBI Research-Website are based on the information available and the market assessment at the point in time stated in the respective publications. Certain information on this website constitutes forward-looking statements. RBI does not assume and hereby as far as possible expressly excludes any liability for the correctness, completeness or actual occurrence of the events described in the forward-looking statements. Such statements are not guarantees of future performance and involve a number of risks, uncertainties and assumptions. Certain financial data (e.g. stock exchange prices) may in some cases only be published after a certain interval of time has lapsed as defined by the data vendor (usually about 15 minutes or previous day end-of-day quotes). Furthermore, please note that many of the times are given in Greenwich Mean Time (GMT).

You agree and acknowledge that the information and statements contained in the materials you are accessing on the RBI Research-Website speak only as of the date of such document and such information and statements will become inaccurate, stale and/or out-of-date thereafter. These materials should not be relied upon at any time for any investment decision.

RBI assumes no responsibility to maintain documents posted on the RBI Research-Website or to update any documents. Therefore, users of the RBI Research-Website acknowledge that the content of documents available on the RBI Research-Website may not show the most recent scenarios, analysis or conclusions.

Restricted access due to local regulations

Users of the RBI Research-Website can access some documents and information without registration requirements and without further barriers (the respective area on the RBI Research-Website is hereinafter referred to as "Unrestricted Area"). By accessing the Unrestricted Area, you agree and acknowledge that the materials on the RBI Research-Website may lawfully be made available in accordance with the laws of the jurisdiction in which you are located.

Other documents are only available to persons who have registered themselves in accordance with the required procedure. The part of the RBI Research-Website which can only be accessed by way of registration is hereinafter referred to as "Restricted Area").

Due to the laws applicable in some jurisdictions or regulations imposed by capital market or securities authorities, some of the information published on the RBI Research-Website (e.g. stock analyses) is not addressed to private individuals. In order to ensure the enforcement of such local access restrictions, RBI retains the right to take any (technical) measures it may deem suitable for restricting such information or segments of information subject to the aforementioned restrictions. The passing on of information contained on the RBI Research-Website, which is subject to local access restrictions valid in certain countries, to the persons stated in the relevant restrictions may constitute a breach of securities law or of other laws of said countries.

The distribution or dissemination of information published on the RBI Research-Website as well as the purchase and offering of the respective products in certain jurisdictions may be subject to restrictions or additional requirements. Persons who retrieve such information from the RBI Research-Website or into whose possession such information comes are required to inform themselves about and to observe such restrictions. In particular, the products to which such information published on the RBI Research-Website refers, may generally not be purchased or held by U.S. persons (the term "U.S. person" refers to any legal/natural person having its seat/residence in the U.S.A and any other person within the meaning given to it by Regulation S under the Securities Act 1933 as amended).

Users of the Unrestricted Area should be aware that the documents available on this part of the RBI Research-Website are not made available on the basis that any customer relationship is created between RBI and such user solely on the basis of such user having access to the respective documents. The documents available in the Unrestricted Area are intended to be available to users in the European Economic Area and in the United Kingdom.

Links to websites or URLs of third-party providers

With the exception of the cases regulated under § 17 of the Austrian E-Commerce Act, RBI does not assume any liability for the content of websites or URLs of other providers to which links are provided. Neither does RBI assume any liability for the uninterrupted availability or full functionality of the links to websites or URLs of third parties.

Exclusion of liability

RBI makes no warranty and will accept no liability for any damages whatsoever (including consequential or indirect damages, or lost profits) relating to the access to the RBI Research-Website, the opening, use or querying of the contents on the RBI Research-Website or relating to the links set up on the RBI Research-Website to websites or URLs of third parties. This applies also in cases in which RBI points out the possibility of incurring such damages.

Furthermore, RBI shall not be liable for technical disruptions such as server breakdowns, operating disruptions or failures of the telecommunications links and other similar events, which could lead to the (temporary) unavailability of the RBI Research-Website as a whole or parts of it.

Storage of registration data

The content in the Restricted Area of the RBI Research-Website is only available to registered users. By sending the completed online registration form, the user confirms the completeness and correctness of the data given and also confirms having truthfully answered the questions asked. Furthermore, by sending the completed online form, the user hereby declares his or her consent to the electronic processing of his or her registration data by RBI for both internal banking organisational purposes and for transmission to other credit institutions within the Raiffeisen Banking Group, which may in turn also process, pass on or use such data.

Changes to the RBI Research-Website

RBI retains the right to change and to remove the RBI Research-Website at any time (if necessary also without prior notice), in particular as regards changing existing contents (in full or in part) and adding new contents.

General terms and conditions of business

For (authorised) users who use the services of RBI provided on the RBI Research-Website, the General Terms and Conditions of Business, as amended, of RBI shall apply in addition to the terms and conditions of this Disclaimer.

Please also take note of the general information provided pursuant to § 5 of the E-Commerce Act!


Thomas Sternbach Legal and Compliance Raiffeisen Bank International AG Am Stadtpark 9, 1030 Wien Tel: +43-1-71707-1541 Fax: +43-1-71707-761541 thomas.sternbach@rbinternational.com

IF YOU CANNOT SO CERTIFY, YOU MUST CLICK THE BUTTON LABELLED "I DECLINE" OR OTHERWISE EXIT THIS WEBSITE.


BY ACCESSING THE MATERIALS ON THIS WEBSITE, YOU SHALL BE DEEMED TO HAVE MADE THE ABOVE REPRESENTATIONS AND CONSENTED TO DELIVERY BY ELECTRONIC TRANSMISSION.

This document is a marketing communication.

FABIAN BLASCH

📍 Austria  ,
 ✉️ fabian.blasch@rbinternational.com

AMADEA HIESS

📍 Austria  ,
 ✉️ amadea.hiess@rbinternational.com

MARKUS TSCHAPECK

📍 Austria  ,
 ✉️ markus.tschapeck@rbinternational.com


VALBONA GJEKA

📍 Albania  ,
 ✉️ valbona.gjeka@raiffeisen.al


OLGA ZHEGULO

📍 Belarus  ,
 ✉️ olga.zhegulo@priorbank.by


MIRZA ZORNIC

📍 Bosnia Herzegovina  ,
 ✉️ mirza.zornic@raiffeisengroup.ba

HELENA HORSKA

📍 Czech Republic  ,
 ✉️ Helena.Horska@rb.cz


ZOLTÁN TÖRÖK

📍 Hungary  ,
 ✉️ torok.zoltan@raiffeisen.hu


ANDREEA-ELENA DRAGHIA

📍 Romania  ,
 ✉️ Andreea-Elena.DRAGHIA@raiffeisen.ro


GREGORY CHEPKOV

📍 Russia  ,
 ✉️ grigory.chepkov@raiffeisen.ru

TIBOR LORINCZ

📍 Slovakia  ,
 ✉️ tibor_lorincz@tatrabanka.sk

GUNTER DEUBER

📍 Austria  ,
 ✉️ gunter.deuber@rbinternational.com


MATTHIAS REITH

📍 Austria  ,
 ✉️ matthias.reith@rbinternational.com


FRANZ ZOBL

📍 Austria  ,
 ✉️ franz.zobl@rbinternational.com


FJORENT RRUSHI

📍 Albania  ,
 ✉️ Fjorent.Rrushi@raiffeisen.al

ASJA GRDJO

📍 Bosnia Herzegovina  ,
 ✉️ asja.grdjo@raiffeisengroup.ba


ELIZABETA SABOLEK-RESANOVIC

📍 Croatia  ,
 ✉️ elizabetha.sabolek-resanovic@rba.hr

LEVENTE BLAHÓ

📍 Hungary  ,
 ✉️ levente.blaho@raiffeisen.hu


DOROTA STRAUCH

📍 Poland  ,
 ✉️ dorota.strauch@raiffeisen.pl


IONUT DUMITRU

📍 Romania  ,
 ✉️ Ionut.Dumitru@raiffeisen.ro

STANISLAV MURASHOV

📍 Russia  ,
 ✉️ stanislav.murashov@raiffeisen.ru


SERHII KOLODII

📍 Ukraine  ,
 ✉️ serhii.kolodii@raiffeisen.ua


CASPER ENGELEN

📍 Austria  ,
 ✉️ casper.engelen@rbinternational.com


GOTTFRIED STEINDL

📍 Austria  ,
 ✉️ gottfried.steindl@rbinternational.com


BRISIDA BUZI

📍 Albania  ,
 ✉️ Brisida.BUZI@raiffeisen.al


ARISTEA VLLAHU

📍 Albania  ,
 ✉️ Aristea.Vllahu@raiffeisen.al

IVONA ZAMETICA

📍 Bosnia Herzegovina  ,
 ✉️ ivona.zametica@raiffeisengroup.ba

ZRINKA ZIVKOVIC-MATIJEVIC

📍 Croatia  ,
 ✉️ zrinka.zivkovic-matijevic@rba.hr


GERGELY PÁLFFY

📍 Hungary  ,
 ✉️ gergely.palfy@raiffeisen.hu

NICOLAE COVRIG

📍 Romania  ,
 ✉️ Nicolae.Covrig@raiffeisen.ro

ANASTASIA BAYKOVA

📍 Russia  ,
 ✉️ ABAIKOVA@raiffeisen.ru

LJILJANA GRUBIC

📍 Serbia  ,
 ✉️ ljliljana.grubic@raiffeisenbank.rs

OLEKSANDR PECHERYTSYN

📍 Ukraine  ,
 ✉️ oleksandr.pecherytsyn@raiffeisen.ua

Imprint

Information requirements pursuant to the Austrian E-Commerce Act

Raiffeisen Bank International AG Registered Office: Am Stadtpark 9, 1030 Vienna Postal address: 1010 Vienna, Postfach 50 Phone: +43-1-71707-1846 Fax: +43-1-71707-1848

Creation time of this publication: 22/10/2024 10:37 A.M. (EEST) ;

First Dissemination of this publication: 22/10/2024 10:37 A.M. (EEST)

This report is intended for replaceme@bluematrix.com. Unauthorized distribution of this report is prohibited.

Company Register Number: FN 122119m at the Commercial Court of Vienna VAT Identification Number: UID ATU 57531200 Austrian Data Processing Register: Data processing register number (DVR): 4002771S.W.I.F.T.-Code: RZBA AT WW

Supervisory Authorities: As a credit institution (acc. to § 1 Austrian Banking Act; Bankwesengesetz) Raiffeisen Bank International AG is subject to the supervision by the Austrian Financial Market Authority (FMA, Finanzmarktaufsicht) and the National Bank of Austria (OeNB, Oesterreichische Nationalbank). Additionally, RBI is subject to the supervision by the European Central Bank (ECB), which undertakes such supervision within the Single Supervisory Mechanism (SSM), which consists of the ECB and the national responsible authorities (Council Regulation (EU) No 1024/2013 - SSM Regulation). Unless set out herein explicitly otherwise, references to legal norms refer to norms enacted by the Republic of Austria.

Membership: Austrian Federal Economic Chamber, Federal Bank and Insurance Sector, Raiffeisen Association.

Statement pursuant to the Austrian Media Act

Publisher and editorial office of this publication Raiffeisen Bank International AG Am Stadtpark 9, A-1030 Vienna **Media Owner of this publication** Raiffeisen RESEARCH – Verein zur Verbreitung von volkswirtschaftlichen Analysen und Finanzmarktanalysen Am Stadtpark 9, A-1030 Vienna **Executive Committee of Raiffeisen RESEARCH – Verein zur Verbreitung von volkswirtschaftlichen Analysen und Finanzmarktanalysen:** Mag. Gunter Deuber (Chairman), Mag. Helge Rechberger (Vice-Chairman) Raiffeisen RESEARCH – Verein zur Verbreitung von volkswirtschaftlichen Analysen und Finanzmarktanalysen is constituted as state-registered society. Purpose and activity are (inter alia), the distribution of analysis, data, forecasts and reports and similar publications related to the Austrian and international economy as well as financial markets. **Basic tendency of the content of this publication**

- Presentation of activities of Raiffeisen Bank International AG and its subsidiaries in the area of conducting analysis related to the Austrian and international economy as well as the financial markets.
- Publishing of analysis according to various methods of analyses covering economics, interest rates and currencies, government and corporate bonds, equities as well as commodities with a regional focus on the euro area and Central and Eastern Europe under consideration of the global markets.

Producer of this publication Raiffeisen Bank International AG Am Stadtpark 9, A-1030 Vienna